

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

WISCONSIN ENERGY CORPORATION,)
INTEGRYS ENERGY GROUP, INC.,)
PEOPLES ENERGY, LLC, THE PEOPLES)
GAS LIGHT AND COKE COMPANY,)
NORTH SHORE GAS COMPANY, ATC)
MANAGEMENT INC., and AMERICAN)
TRANSMISSION COMPANY LLC)

)
Application pursuant to Section 7-204 of the)
Public Utilities Act for authority to engage in a)
Reorganization, to enter into agreements with)
affiliated interests pursuant to Section 7-101, and)
for such other approvals as may be required)
under the Public Utilities Act to effectuate the)
Reorganization.)

Docket No. 14-0496

Rebuttal Testimony of

ALLEN L. LEVERETT

President – Wisconsin Energy Corporation

On Behalf of
Wisconsin Energy Corporation

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 **Q. Please state your name and business address.**

4 A. My name is Allen L. Leverett. My business address is Wisconsin Energy Corporation
5 ("Wisconsin Energy"), 231 West Michigan Street, Milwaukee, Wisconsin 53203.

6 **Q. Are you the same Allen L. Leverett who provided direct testimony on behalf of**
7 **Wisconsin Energy in this docket?**

8 A. Yes.

9 **B. Purposes of Rebuttal Testimony**

10 **Q. What is the purposes of your rebuttal testimony in this proceeding?**

11 A. My rebuttal testimony responds to the direct testimony of Illinois Commerce
12 Commission ("Commission" or "ICC") Staff witnesses Eric Lounsberry and Matthew
13 Smith, Office of the Illinois Attorney General ("Attorney General" or "AG") witnesses
14 David Effron and Sebastian Coppola, and City of Chicago ("City") and Citizens Utility
15 Board ("CUB") (collectively, "City/CUB") witnesses Christopher Wheat, Karen Weigert,
16 William Cheaks, Jr., and Michael Gorman.

17 **C. General Response to Staff and Intervenor Direct and Summary of**
18 **Conclusions**

19 **Q. What is your general response to the direct testimony of those parties?**

20 A. The Joint Applicants appreciate the testimony provided by Staff and intervenors,
21 including the identification of concerns regarding various aspects of the proposed
22 Reorganization. The Joint Applicants are continuing to evaluate these issues and are
23 actively exploring solutions to issues, including good faith consideration of suggested

"conditions" proposed by various parties. While the Joint Applicants do not agree with all of the expressed concerns and do not believe that all of the suggested conditions are necessary or appropriate, we are committed to continuing to explore sensible solutions where required. Thus, in response to the various conditions proposed by Staff and intervenors, the Joint Applicants are agreeable to making the following commitments:

- Peoples Gas will continue the Accelerated Main Replacement Program ("AMRP"), assuming it receives and continues to receive appropriate cost recovery, with a planned 2030 completion date;
- Agree to condition that Peoples Gas will evaluate each recommendation of the Liberty audit and implement it if the recommendation is possible to implement, practical and reasonable from the standpoint of stakeholders and Peoples Gas customers, and cost-effective, and, if Peoples Gas determines the recommendation does not meet these criteria, that Peoples Gas will provide an explanation of that determination with all necessary documentation and studies to demonstrate to the satisfaction of Staff that strict implementation is not possible, practical, or reasonable, along with an alternative plan to accomplish the goals of the recommendation as fully as is possible, practical, and reasonable. In the event that Peoples Gas and Staff cannot reach agreement on whether a recommendation should be implemented and/or how it should be implemented, then a petition may be filed to obtain the Commission's determination on whether and/or how the recommendation is to be implemented;
- Agree to condition that Peoples Gas will cooperate fully with the Commission's Staff and consultants as they work to verify that Peoples Gas has implemented the recommendations in the final report on the Peoples Gas AMRP investigation to the extent it is determined they should be implemented pursuant to the terms of the previous commitment;
- Agree to condition that Peoples Gas will provide written reports to the Commission Staff on or before January 1 and July 1 of each year, beginning in the year 2018 and ending only after the completion of the AMRP or any successor program that replaces the AMRP, about any change in implementation of the recommendations in the final report of the investigation of Peoples Gas' AMRP to the extent it is determined they should be implemented, with an officer of Peoples Gas providing written verification of the accuracy and completeness of each report;

- Agree to condition that the Gas Companies cease their reporting on Condition #24 from Docket No. 06-0540;¹
- Provide information concerning recommendations from PricewaterhouseCoopers regarding the AMRP in response to Staff witness Mr. Lounsberry's recommendation;
- Provide commitments with respect to the Gas Companies' capital expenditures in response to Staff witness Mr. Lounsberry's recommendation;
- Agree to work with Staff on developing a stipulation concerning the development and implementation of a Pipeline Safety Management System;
- Agree to condition that in future rate cases, the Gas Companies shall identify all costs included in the test period that result from accomplishing the Reorganization and demonstrate that such costs are not included in the rate case for recovery;²
- Agree to condition that should the Joint Applicants opt to follow push-down accounting for the Reorganization, any accounting entries made to the books of the Gas Companies for push-down accounting related to the Reorganization shall be disregarded for ratemaking and regulatory reporting purposes;
- Agree to condition that the Joint Applicants will provide the Manager of the Commission's Accounting Department and to file on the ICC's e-Docket system in Docket No. 14-0496, a copy of the signed, executed Interim Agreement that is being approved by the Commission in this proceeding, within 60 days after the date of the transaction;
- Agree to condition that Joint Applicants must provide to the Manager of the Commission's Accounting Department and to file on the ICC's e-Docket system in Docket No. 14-0496 a copy of the signed, executed Final Agreement pursuant to the Commission order in Docket Nos. 12-0273/13-0612 (Cons.) if there are any changes between the Interim Agreement and a Final Agreement;

¹ Unless otherwise indicated, capitalized terms in this rebuttal testimony herein have the same meaning as in the witness' direct testimony.

² The Joint Applicants agree to this condition based on the understanding that the costs referred to are "transaction costs." "Transaction costs" are the costs associated with executing the transaction at issue, such as banker's fees, legal fees, or severance costs incurred as a result of the transaction (*i.e.*, executive change-in-control payments as identified in an SEC Form S-4). In contrast, "transition costs" are costs incurred after the close of the transaction to achieve long-term efficiencies and savings, and which may be recovered to the extent they produce savings.

- Agree to condition requiring supplementation of the information the Gas Companies provide annually in their Form 21 ILCCs to the Commission;
- Agree to condition that Joint Applicants must file a semi-annual compliance report on the ICC's e-Docket system in Docket No. 14-0496, reporting the status of their progress on all conditions imposed by the Commission in this case until all conditions have been satisfied or the Joint Applicants petition the Commission and receive approval to cease such reporting requirement, whichever comes first;
- Agree to condition that the Chief Executive Officer of WEC Energy Group must, on an annual basis, appear before the Commission to report on the status of the Joint Applicants' compliance with the Order in Docket No. 14-0496, and to continue to appear until all conditions have been satisfied or the Joint Applicants petition the Commission and receive approval to cease such appearance requirement, whichever comes first;
- Agree to condition requiring that the Gas Companies maintain separate credit facilities to the extent they existed prior to the Reorganization, not accessible to nor influenced by non-utility affiliates;
- Agree to condition prohibiting the Gas Companies from lending to non-utility affiliates under Section 7-101 of the Illinois Public Utilities Act (the "Act") or 83 Illinois Administrative Code Part 340;
- Agree to condition prohibiting the Gas Companies from guaranteeing any obligations of their non-utility affiliates;
- Agree to condition that would require the filing of copies of the reports of investigations conducted by the Public Service Commission of Wisconsin of the WEC Energy Group holding company under the Wisconsin Utility Holding Company Act, WI Stat § 196.795(7);
- Agree to condition that the Gas Companies shall file a compliance report in Docket No. 14-0496 within 180 days after the close of the Reorganization, with a copy to the Manager of the Commission's Finance Department, that describes the Gas Companies' post-merger capital structures and identifies capital structure adjustments, if any, that resulted from the Reorganization, and, in the event that there are push-down accounting adjustments made to the Gas Companies' balance sheets as a result of the Reorganization, that the Gas Companies shall file a petition with the Commission seeking Commission approval of the fair value studies and resulting capital structures for the Gas Companies pursuant to Section 6-103 of the Act;

- The Joint Applicants will review and attempt to improve their performance with respect to the AMRP on a continuing basis as work on the project progresses;
- Reaffirm commitment to have at least one member of the WEC Energy Group Board of Directors be an Illinois resident;
- To open a new state-of-the-art training facility for the Gas Companies in the City of Chicago;
- Peoples Gas has agreed to extend for five years from April 2015 its funding of technical training for future gas utility workers at Dawson Technical Institute at a satellite location of the City Colleges of Chicago's Kennedy King College;
- To contribute \$5 million of shareholder money over the next five years to the Peoples Gas Share the Warmth program, with \$1 million being contributed in 2015;
- To continue investigating whether and to what extent it is possible for the Gas Companies to participate in the Chicago Department of Transportation's dotMaps website;
- To not seek recovery of any severance costs that are transaction costs (*see* footnote 2, above) because they are incurred as part of accomplishing the Transaction (*i.e.*, executive change-in-control payments identified in SEC Form S-4);
- To maintain the Gas Companies' existing large volume transportation and small volume Choices for You programs in substantially the same form as they exist now;
- To honor the commitment made by the Gas Companies in the testimony of Ms. Debra Egelhoff in Docket Nos. 14-0224/12-0225 (Consol.) concerning a purchase of receivables tariff;
- To reinstate the intraday nomination provision in the Gas Companies' Rider P that had existed as a pilot that expired on January 31, 2014; and
- To work with the Retail Energy Suppliers Association ("RESA") on a stipulation or other agreement to memorialize the Joint Applicants' commitment to address with RESA the additional proposals it has suggested after the close of the Reorganization.

Q. Please summarize the conclusions of your rebuttal testimony.

A. In my rebuttal testimony, I conclude:

192 (1) The proposed Reorganization and the Joint Applicants' plans with respect
193 to the Gas Companies are consistent with the requirements of Section 7-204 of the Act as
194 a whole.

195 (2) The proposed Reorganization meets the requirements of Section 7-
196 204(b)(1) of the Act because the evidence demonstrates that it will not diminish the Gas
197 Companies' ability to provide adequate, reliable, efficient, safe and least-cost public
198 utility service. The standard suggested by certain witnesses that would require the
199 Commission to find that the proposed Reorganization must improve the Gas Companies'
200 operations before it should be approved by the Commission is inconsistent with the
201 express language of Section 7-204(b)(1). While the Joint Applicants conclude that the
202 proposed Reorganization meets the requirements of Section 7-204(b)(1) based on the
203 evidence to date, the Joint Applicants agree to several of the conditions proposed by Staff
204 and intervenors in an effort to reach agreement with them on this issue, as well as
205 explaining the reasons why the Joint Applicants cannot agree to the remainder of the
206 conditions proposed by Staff and intervenors.

207 (3) The proposed Reorganization meets the requirements of Section 7-
208 204(b)(5) of the Act, as concluded by Staff witness Harry Stoller.

209 (4) The proposed Reorganization meets the requirements of Section 7-
210 204(b)(6) of the Act, as concluded by Staff witness David Sackett.

211 (5) Section 7-204(b)(7) of the Act does not require that the period in which
212 the Gas Companies have committed to not seek a change in base rates be increased from
213 two years to five years as proposed by City/CUB witness Michael Gorman.
214 Mr. Gorman's analysis fails to account for the impact such a lengthy prohibition on the

change of base rates will have on the ability to recover AMRP costs through Rider QIP, as well as the impact new City regulations have had on Peoples Gas' costs.

(6) Section 7-204(b)(7) of the Act does not require that the Gas Companies be prohibited from increasing the fixed charge portions of their delivery service rates in the event that their decoupling rider, Rider VBA, is overturned by the Supreme Court of Illinois as proposed by City/CUB witness Karen Weigert.

(7) The Joint Applicants cannot agree to the condition proposed by Staff witness Matthew Smith to require Peoples Gas to move all of its inside gas meters to accessible outside locations within ten years after the close of the proposed Reorganization. Compliance with this condition would not be feasible, or even physically possible, would create inefficiencies for the AMRP, and increase risks for outages during cold weather for customers not yet upgraded to medium pressure.

(8) The Joint Applicants will work with Staff to develop a plan for the development and implementation of a Pipeline Safety Management System for the Gas Companies, to be submitted in a stipulation made in later rounds of testimony or a separate filing in this proceeding.

(9) The Joint Applicants cannot agree to the proposed conditions recommended by City/CUB witness Karen Weigert concerning additional funding for energy efficiency programs in addition to what already is required under the Act or other modifications to existing energy efficiency programs offered by the Gas Companies. The proposals do not appear to have any connection to the proposed Reorganization, Section 7-204 contains no requirements concerning energy efficiency, and Ms. Weigert's

proposals are, at least in part, based upon incorrect and/or incomplete factual assumptions.

(10) The Joint Applicants cannot agree to Ms. Weigert's recommended proposal to expand Peoples Gas' on-bill financing program because the credit requirements for the program are contractual in nature and set by third-party financiers outside of the Commission's jurisdiction.

(11) The Joint Applicants disagree with the conclusions and recommendation of AG witness David Effron concerning costs for the Integrys Customer Experience project, and cannot agree to Mr. Effron's proposed rider condition.

D. Itemized Attachments to Rebuttal Testimony

Q. Are you sponsoring any exhibits with your rebuttal testimony?

A. Yes, I have attached the following exhibit to my testimony:

- Copies of the Joint Applicants' responses to Staff data requests ENG 1.23 and 3.04 and DGK 3.01, 3.02, and 3.03; AG data requests AG 3.02, 3.03, 5.01, 5.02, and 5.03; and City data request City 5.02, attached as Joint Applicants Exhibit ("Ex.") 6.1.

II. REVIEW OF THE PROPOSED REORGANIZATION

Q. Please review the general structure of the proposed Reorganization with respect to how it will impact the Gas Companies.

A. The Transaction underlying the proposed Reorganization is the purchase of the outstanding common stock of the Integrys Energy Group, Inc. ("Integrys") utility holding company by Wisconsin Energy, which will be renamed WEC Energy Group, Inc. ("WEC Energy Group"). The Transaction was described in detail in my direct testimony (Joint

Applicants Ex. 1.0) as well as the Joint Application filed in this proceeding and the direct testimony of Joint Applicant witness John J. Reed (Joint Applicants Ex. 3.0). Other than this change in corporate ownership, the proposed Reorganization will leave The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas Company (“North Shore”) (together, the “Gas Companies”) essentially unchanged, with local headquarters, facilities, and management remaining in Chicago and Waukegan, respectively. From the perspective of the Gas Companies’ customers, this change in ownership will be seamless, with no diminishment in Peoples Gas’ and North Shore’s ability to deliver high-quality, adequate, reliable, efficient, safe, and least-cost gas service.

While some witnesses question the value of the affirmative benefits that the Joint Applicants believe the proposed Reorganization will bring to the Gas Companies’ customers, and others seek conditions that would change the current state of the Gas Companies’ operations in ways that are unrelated to the proposed Reorganization, no witness has presented any substantive evidence that the Reorganization would adversely affect the Gas Companies’ ability to continue delivering high-quality, adequate, reliable, efficient, safe, and least-cost gas service. The Joint Applicants do not take the position that the Gas Companies’ operations are perfect or that improvements may not be made; to the contrary, they look forward to working with all stakeholders to find ways to improve the Gas Companies’ operations. However, in advancing the regulatory process, it is important that the scope of review in this proceeding be guided by the legal requirements set out in the Act, rather than by matters that do not fall within the statutory requirements for approval of the Reorganization, even if they are of potential interest to a particular stakeholder.

283 **Q. What is your general response to the direct testimony of intervenor witnesses to the**
284 **effect that the proposed Reorganization will result in the Gas Companies’**
285 **management being disassociated or disinterested in how the Gas Companies’**
286 **customers are affected by its actions?**

287 A. I respectfully disagree with that testimony. The Gas Companies will continue to have
288 local headquarters with local management overseeing their operations, just as they do
289 today. The employees – many with long tenures at the Gas Companies and deep roots
290 within the local community – who make the daily decisions about the Gas Companies’
291 operations and perform those operations will continue to be located here in the Gas
292 Companies’ service territories.

293 The parties making this suggestion have presented no substantive evidence that
294 the attention or care paid to the concerns and interests of the Gas Companies’ customers
295 will be diminished simply because the utility’s ownership will change and the offices of
296 the Gas Companies’ parent company will no longer be located in Chicago, Illinois.
297 Currently, Integrys’ corporate headquarters are located in Chicago, Illinois, but the
298 company focuses equally on making sure the customers of its utilities in Wisconsin,
299 Michigan, and Minnesota receive high-quality utility service just like the Gas
300 Companies’ customers. The same will hold true for all the service territories served by
301 WEC Energy Group utilities following the Reorganization regardless of where its
302 headquarters are located.

303 There is nothing uncommon or exceptional about the offices of an Illinois utility’s
304 corporate parent being located in a different state. For example, the parent company of
305 Nicor Gas is headquartered in Atlanta, Georgia, and the parent company of Ameren

Illinois is headquartered in St. Louis, Missouri. Just as with those utilities and their parent companies, the fact that WEC Energy Group's corporate offices are located out of state will not cause any lack of attention to the needs of the Gas Companies or their customers.

Q. Are the proposed Reorganization and the Joint Applicants' plans with respect to the Gas Companies consistent with the requirements of Section 7-204 of the Act as a whole?

A. Yes, the proposed Reorganization and the Joint Applicants' plans with respect to the Gas Companies are consistent with the requirements of Section 7-204 of the Act as a whole. While I am not an attorney, it seems that the provisions of Section 7-204 focus on ensuring that a reorganization will not "diminish" a utility's ability to perform its duties under the Act and provide service to its customers, "significantly impair" its ability to raise capital and maintain a reasonable capital structure, or cause "adverse rate impacts." The Joint Applicants have made commitments and presented other evidence to demonstrate that the proposed Reorganization will not adversely affect, diminish, or impair the Gas Companies' service to customers. Indeed, through the creation of a larger, more financially stable utility holding company parent, potential long-term savings, and the sharing of best practices between the Integrys and Wisconsin Energy companies, the proposed Reorganization will result in benefits for the Gas Companies and their customers, putting them in a better position than they would have been if the proposed Reorganization had not occurred. But, at the very least, the proposed Reorganization will not cause any diminishment or impairment to the current status of the Gas Companies or the service they are able to provide to their customers, which is what I

understand the straightforward language of Section 7-204 requires for the Commission to approve a proposed reorganization.

III. REQUIREMENTS OF SECTION 7-204(b)(1)

Q. What are the requirements of Section 7-204(b)(1) under the Act?

A. Section 7-204(b)(1) of the Act requires that before the Commission can approve a reorganization, it must find that “the proposed reorganization will not diminish the utility’s ability to provide adequate, reliable, efficient, safe and least-cost public utility service.”

Q. Has Staff addressed this requirement in direct testimony?

A. Yes. Staff witness Mr. Lounsberry addressed this requirement in his direct testimony (Staff Ex. 2.0).

Q. What was Mr. Lounsberry’s position related to this requirement?

A. According to Mr. Lounsberry, the Joint Applicants have not yet shown that the proposed Reorganization will meet the requirement of Section 7–204(b)(1), and must provide certain commitments regarding the Peoples Gas AMRP, including the implementation of recommendations from the ongoing investigation of the AMRP by the Liberty Consulting Group (“Liberty”). Mr. Lounsberry further stated that the Joint Applicants should provide additional information concerning the PricewaterhouseCoopers (“PwC”) audit of the AMRP, the Joint Applicants’ commitment regarding Full Time Equivalents (“FTEs”), and capital investments.

Q. Do you agree with Mr. Lounsberry’s conclusion that the Joint Applicants have not yet met the requirements of Section 7-204(b)(1)?

351 A. No, I respectfully disagree. The acquisition of Integrys' stock by Wisconsin Energy to
352 create a larger combined holding company will not diminish Peoples Gas' or North
353 Shore's ability to provide adequate, reliable, efficient, safe and least-cost public utility
354 service. Although Mr. Lounsberry questions whether the proposed Reorganization will
355 result in improvements to the WEC Energy Group operating companies, this does not
356 show that existing service will be diminished. Likewise, the problems he alleges with the
357 Peoples Gas AMRP are not the result of and are in no way related to Wisconsin Energy's
358 acquisition of Integrys' stock. To the extent such problems exist, they existed before and
359 are independent of this transaction. The Joint Applicants want to work with Staff in a
360 good faith effort to reach agreement regarding the ways in which the proposed
361 Reorganization meets the requirement of Section 7-204(b)(1), and will address each of
362 Mr. Lounsberry's proposed commitments and recommendations. Further, the Joint
363 Applicants commit to reviewing and attempting to improve their performance with
364 respect to the AMRP on a continuing basis as work on the project progresses, as
365 explained below and in the rebuttal testimony of Joint Applicants witness Mr. Giesler
366 (Joint Applicants Ex. 10.0).

367 **Q. Do other parties also address the requirement of Section 7-204(b)(1)?**

368 A. While they do not expressly link their testimony to Section 7-204(b)(1), witnesses for the
369 AG and City/CUB address issues that Mr. Lounsberry has raised in the context of Section
370 7-204(b)(1), such as due diligence, the AMRP, and FTE commitments. For purposes of
371 addressing similar issues together, I will discuss my responses to these witnesses'
372 testimony regarding those issues at the same time, as appropriate.

373 **A. Due Diligence**

374 **Q. Both Staff witness Mr. Lounsberry at pages 18-24 of his direct testimony (Staff Ex.**
375 **2.0) and Attorney General witness Mr. Coppola at pages 30-31 of his direct**
376 **testimony (AG Ex. 2.0) questioned the level of due diligence performed by**
377 **Wisconsin Energy prior to entering into the agreement to purchase Integrys’**
378 **outstanding common stock. Have these witnesses properly described the level and**
379 **type of due diligence that is customary and prudent for a transaction of this nature?**

380 **A. No. As an initial matter, while I am not an attorney, Section 7-204(b)(1) does not appear**
381 to impose any statutory due diligence requirements. In any event, the level and type of
382 due diligence performed by Wisconsin Energy was entirely typical and standard for a
383 transaction in which one utility holding company purchases the outstanding stock of
384 another utility holding company, as further discussed in the rebuttal testimony of
385 Mr. Reed (Joint Applicants Ex. 8.0). It is not typical for the type of detailed operational
386 and project-specific information Mr. Lounsberry describes to be reviewed prior to
387 entering into such an acquisition agreement. Because the companies involved are
388 publicly traded, federal securities law requires each of them to periodically report matters
389 that are material to investors. Thus, the due diligence on a publicly traded company is
390 largely limited to identifying matters that have not been reported but could be material to
391 investors. The threshold for materiality is usually very high because in many cases
392 materiality is tied to the assets or earnings of the company.

393 **B. AMRP**

394 **Q. What is your response to Mr. Lounsberry’s proposed condition that the Joint**
395 **Applicants “reaffirm Peoples Gas’ commitment to the Commission in Docket Nos.**

09-0166/09-0167 (Consol.) to complete the AMRP by the end of 2030” (Staff Ex. 2.0, 14:304-309)?

A. As stated in my direct testimony (Joint Applicants Ex. 1.0, 16:343-345), Wisconsin Energy will be subject to any and all existing obligations established by the orders of this Commission, including such obligations associated with the Peoples Gas AMRP. As explained in the rebuttal testimony of Mr. James Schott (Joint Applicants Ex. 9.0), however, the Joint Applicants do not believe that Mr. Lounsberry has accurately described Peoples Gas’ legal obligations with respect to the AMRP. This is not to say that the Joint Applicants are unwilling to make significant commitments regarding AMRP. As explained in Mr. Schott’s rebuttal testimony, it is Peoples Gas’ intention, assuming it receives and continues to receive appropriate cost recovery, to complete the AMRP by 2030, *i.e.*, in 20 years from the 2011 inception. And, as I discussed in my direct testimony, the Joint Applicants are committed to having Peoples Gas continue the AMRP on this basis.

Q. What is your response to the three conditions Mr. Lounsberry proposes with respect to the implementation of recommendations from the Liberty audit, cooperating with Staff and the consultants on verification of implementation, and reports on the implementation of the recommendations on page 4 of his direct testimony (Staff Ex. 2.0, 17:419 – 18:444)?

A. The Joint Applicants agree that recommendations made by Liberty in its yet to be issued final report of the investigation of Peoples Gas’ AMRP should be implemented where they are (1) possible to implement, (2) practical and reasonable from the standpoint of stakeholders and Peoples Gas customers, and (3) cost-effective. The Joint Applicants

will work with Staff and Liberty to implement such recommendations. At this time, however, Liberty's final report has not been issued and the Joint Applicants simply cannot commit Peoples Gas to implement "all" the Liberty recommendations before they are seen and Peoples Gas has an opportunity to determine if their implementation is practicable and reasonable, and in the best interests of Peoples Gas' customers. Accordingly, the Joint Applicants propose the following modifications to the language of the conditions proposed by Mr. Lounsberry:

- ~~Peoples Gas will implement fully all~~With respect to each recommendations contained in the final report of the investigation of Peoples Gas' AMRP completed at the direction of the Commission in its June 18, 2013 Order in Docket No. 12-0512 under the authority granted in Section 8-102 of the Act (220 ILCS 5/8-102), Peoples Gas shall evaluate the recommendation and implement it if the recommendation is possible to implement, practical and reasonable from the standpoint of stakeholders and Peoples Gas customers, and cost effective. Implementing a recommendation means taking action per a recommendation. If Peoples Gas determines that a recommendation is not possible, practical, and reasonable, including that the recommendation would not be cost-effective or would require imprudent expenditures, Peoples Gas shall ~~or~~ provide ing an explanation of Peoples Gas' determination with all necessary documentation and studies to demonstrate to the satisfaction of the Commission Staff that strict implementation of the recommendation is not possible, practical, or reasonable, along with an alternative plan to accomplish the goals of the recommendation as fully as is possible, practical, and reasonable. In the event that Peoples Gas and Commission Staff cannot reach agreement as to whether a recommendation should be implemented and/or how it should be implemented, then a petition may be filed to obtain the Commission's determination as to whether and/or how the recommendation is to be implemented.
- Peoples Gas will cooperate fully with the Commission's Staff and consultants as they work to verify that Peoples Gas has implemented ~~all~~the recommendations in the final report on the Peoples Gas' AMRP investigation to the extent it is determined they should be implemented pursuant to Condition #__, above. Cooperation means to provide requested personnel who are reasonably involved in, connected to, and/or relevant to the AMRP and/or the Liberty audit for interviews in a timely manner in which the personnel interviewed shall provide, to the best of their ability, accurate and complete non-privileged information in response to questions askedand without ~~restrictions,~~ to answer written questions in a reasonable time with accurate and complete non-privileged information, and to make all non-privileged information, equipment, work sites, work forces and facilities available for inspection upon reasonable requestwhen requested.

- Peoples Gas will provide written reports to the Commission Staff on or before January 1 and July 1 of each year, beginning in the year 2018 and ending only after the completion of the AMRP or any successor program that replaces the AMRP, about any change in implementation of the recommendations in the final report of the investigation of Peoples Gas' AMRP to the extent it is determined they should be implemented pursuant to Condition # , above. An officer of Peoples Gas shall provide written verification of the accuracy and completeness of each report.

Q. What is your response to Mr. Lounsberry's recommendation that the Joint Applicants provide additional information concerning the PwC audit of the AMRP and recommendations made by PwC at page 4 of his direct testimony (Staff Ex. 2.0, 25:606 – 26:615)?

A. Joint Applicants witness David Giesler addresses this request in his rebuttal testimony (Joint Applicants Ex. 10.0).

Q. Both AG witness Sebastian Coppola (AG Ex. 2.0) and City/CUB witness William Cheaks, Jr., (City/CUB Ex. 3.0) discussed their views on the historical and existing operation of the AMRP by Peoples Gas. Do you have a general response to their discussions concerning the AMRP as part of this proceeding?

A. Yes. Both witnesses presented testimony concerning perceived problems that have occurred in the past and would exist whether or not the proposed Reorganization were occurring. Mr. Coppola discussed the analysis Peoples Gas provided in its 2009 rate case in support of obtaining an infrastructure cost recovery mechanism (not approval of the AMRP itself) which ultimately was overturned by the Appellate Court. Mr. Coppola also presented his analysis purporting to show that the projected costs for the AMRP have increased since the initial forecasts made in 2009. City/CUB witness Mr. Cheaks discussed the Chicago Department of Transportation ("CDOT") regulations implicated by the AMRP, as well as information and his opinions concerning Peoples Gas'

483 performance on the AMRP with respect to complying with those regulations, obtaining
484 permits, and coordinating with the City. While these may be existing problems for which
485 corrective action should be taken, they exist independent of the proposed Reorganization
486 and should not impact the Commission's evaluation of whether Wisconsin Energy's
487 acquisition of Integrys' stock meets the requirements of Section 7-204.

488 For example, Mr. Coppola suggests a standard for approval that is more stringent
489 than the Act's actual requirements. Mr. Coppola cited Sections 7-204(b)(1) and 7-
490 204(b)(7) of the Act in his testimony, but failed to explain how the proposed
491 Reorganization would diminish the Gas Companies' ability to provide adequate, reliable,
492 efficient, safe and least-cost utility service or result in adverse rate impacts for customers
493 in connection with the AMRP. Mr. Coppola recommended conditioning approval of the
494 proposed Reorganization on "improving the current operation of the AMRP" (AG Ex.
495 2.0, 34:680-681, emphasis added). However, the standards set by Sections 7-204(b)(1)
496 and (b)(7) are that the Reorganization "not diminish" the Gas Companies' ability to
497 provide utility service or "result in adverse rate impacts."

498 Likewise, Mr. Cheaks fails to provide any evidence demonstrating that his
499 concerns about Peoples Gas' past performance and coordination with respect to the
500 AMRP vis-à-vis City regulations and permitting would worsen as a result of the proposed
501 Reorganization. Mr. Cheaks provides only vague statements that there will be "increased
502 management challenges that would accompany any approved reorganization" and
503 decisions made by an "out of state entity," but he fails to present any evidence that the
504 stock transaction at issue, which will leave Peoples Gas with its local headquarters and
505 local management, will have any adverse impact on the performance of the AMRP.

Mr. Cheaks’ position also does not recognize Wisconsin Energy’s highly relevant experience with overseeing infrastructure investment programs as large or larger than the AMRP, as described in my direct testimony (Joint Applicants Ex. 1.0, 19:411 – 20:429). While the Joint Applicants appreciate the AMRP-related concerns that have been raised, it is appropriate to acknowledge that Wisconsin Energy has substantial experience in implementing similar programs. Mr. Cheaks’ proposals are based on his opinion that a continuation of the existing day-to-day operation of the AMRP “perpetuates unacceptable” conditions (City/CUB Ex. 3.0, 4:48-49). Joint Applicants appreciate that some problems may need to be addressed and are committed to addressing them, but Section 7-204 – which is the focus of this proceeding – does not call upon the Commission to engage in fact finding about whether or not a proposed reorganization should include mandatory steps to “improve” alleged deficiencies in a utility’s pre-existing operations.

To be clear, as explained in the Application, the direct testimony and rebuttal testimony of the Joint Applicants, it is the Joint Applicants’ position that the proposed Reorganization will result in positive impacts and benefits for customers. But it is also the Joint Applicants’ position that this proceeding is governed by Section 7-204 of the Act, which provides specific guidance regarding the factors that the Commission should consider in the context of evaluating the Reorganization.

Q. What is the Joint Applicants’ position with respect to Mr. Coppola’s proposed condition that Wisconsin Energy perform a thorough evaluation of the AMRP and “scale” the program to a level of cast-iron/ductile iron replacement and related infrastructure upgrades that is manageable, targets high priority, high risk

529 **segments first, is cost-effective, and minimizes the impact on customer rates (AG Ex.**
530 **2.0, 34:685-688)?**

531 A. The Joint Applicants commit to reviewing and attempting to improve their performance
532 with respect to the AMRP on a continuing basis as work on the project progresses,
533 including but not limited to the conditions discussed above with respect to
534 recommendations from PwC and the Liberty audit of the AMRP. However, for the
535 reasons explained in the rebuttal testimony of Joint Applicants witnesses
536 Mr. Schott and Mr. Giesler (Joint Applicants Exs. 9.0 and 10.0, respectively), the
537 Commission should not accept Mr. Coppola's recommendation to condition the
538 Commission's approval of the proposed Reorganization on such a requirement.

539 **Q. What is the Joint Applicants' position with respect to Mr. Coppola's proposed**
540 **conditions on providing annual reports and detailed work plans to the Commission,**
541 **as described on pages 34-35 of his direct testimony (AG Ex. 2.0, 34:689 – 35:705)?**

542 A. Such reporting would largely duplicate the reporting currently required under the Rider
543 QIP legislation and Commission rules, and the additional reporting that will be required
544 under the terms of the conditions agreed to above in response to Mr. Lounsberry's
545 recommendations, as well as the information already available to the Commission
546 pursuant to its supervisory authority over Peoples Gas, as explained in the rebuttal
547 testimony of Joint Applicants witness Mr. Schott (Joint Applicants Ex. 9.0).
548 Accordingly, the Commission should not accept his recommendation to condition its
549 approval of the proposed Reorganization on such requirements.

550 **Q. What is the Joint Applicants' position with respect to Mr. Coppola's proposed**
551 **condition that Peoples Gas credit customers for all construction fines and penalties**

552 **paid from the beginning of 2011 to date to the City of Chicago that were included in**
553 **base rates or infrastructure riders, and not seek such recovery in rates going**
554 **forward (AG Ex. 2.0, 35:707-714)?**

555 A. Peoples Gas has not included any construction fines and/or penalties in its base rates or
556 infrastructure rider recoveries, nor does it have any plans to seek recovery in the future,
557 as explained in the rebuttal testimony of Joint Applicants witness Mr. Schott (Joint
558 Applicants Ex. 9.0). Therefore, it is the Joint Applicants' position that such a condition is
559 unnecessary.

560 **Q. What is the Joint Applicants' position with respect to Mr. Cheaks' proposed**
561 **condition to require a weekly, block-by-block schedule of construction activities be**
562 **given to CDOT and the ICC, provided on a five-year, annual, and monthly basis**
563 **(City/CUB Ex. 3.0, 4:54-56)?**

564 A. The Joint Applicants respectfully cannot agree to this condition for the reasons provided
565 in the rebuttal testimony of Joint Applicants witnesses Mr. Schott and Mr. Giesler (Joint
566 Applicants Exs. 9.0 and 10.0, respectively). As those witnesses explain, the information
567 Mr. Cheaks proposed to be provided in this condition is largely redundant to the
568 voluminous information already provided to the Commission regarding the AMRP and
569 would be of little or no value to the Commission. And, as to CDOT, the Joint Applicants
570 are committed to continuing the regular, ongoing communications and information
571 sharing with CDOT described by Mr. Giesler, and are open to discussing whether
572 additional or different forms of communications would better facilitate planning.

573 **Q. What is the Joint Applicants' position with respect to Mr. Cheaks' proposed**
574 **condition to require that any Field Order Authorizations or Change Orders be**
575 **communicated within 24 hours to CDOT (City/CUB Ex. 3.0, 4:57-58)?**

576 A. The Joint Applicants respectfully do not agree to accept this condition for the reasons
577 explained in the rebuttal testimony of Joint Applicants witness Mr. Giesler (Joint
578 Applicant Ex. 10.0).

579 **Q. What is the Joint Applicants' position with respect to Mr. Cheaks' proposed**
580 **condition to require WEC Energy Group to actively participate in CDOT's**
581 **dotMaps website in order to better collaborate with all occupants of the Public Way**
582 **(City/CUB Ex. 3.0, 4:59-61)?**

583 A. The Joint Applicants continue to investigate whether and how it would be possible for the
584 Gas Companies to actively participate in the dotMaps website. Currently, the Joint
585 Applicants believe there are compatibility issues that would need to be worked out
586 between the Gas Companies' IT systems and the Google-based dotMaps website.
587 Further, the Joint Applicants would need to discuss further with City/CUB the extent of
588 information that would be placed on the website due to customer privacy and data
589 security concerns. Accordingly, the Joint Applicants commit to continue investigating
590 whether and to what extent it is possible for the Gas Companies to participate in the
591 dotMaps website.

592 **Q. What is the Joint Applicants' position with respect to Mr. Cheaks' proposed**
593 **condition requiring Peoples Gas to improve performance in certain categories with**
594 **financial penalties for failing to do so as described in Mr. Cheaks' direct testimony**
595 **at City/CUB Ex. 2.0, 4:62 – 5:72?**

596 A. The Commission should reject this proposed condition as being beyond the scope of the
597 Act and, as discussed in the rebuttal testimony of Joint Applicants witness
598 Mr. Schott (Joint Applicants Ex. 9.0), redundant with existing regulatory oversight tools.
599 As discussed above, the guiding statutory section of the Act does not contemplate
600 imposition of operational commitments with penalties for failing to meet those
601 commitments. While the Joint Applicants are certainly interested in improvement in
602 performance, the proposed condition is not legally justified in the context of this
603 proceeding. Moreover, a remedy, namely disallowance, already exists for costs that are
604 imprudently incurred. Additionally, Joint Applicants witness Mr. Giesler (Joint
605 Applicants Ex. 10.0) provides details demonstrating that each of the six items Mr. Cheaks
606 proposes to be tracked in this proposed condition are or will be adequately covered by
607 existing reporting requirements.

608 **C. FTEs**

609 **Q. Are you able to provide the additional information requested by Mr. Lounsberry**
610 **concerning the Joint Applicants' commitment to maintain at least 1,953 FTEs in**
611 **Illinois for a period of two years after the close of the Transaction?**

612 A. Yes. The 1,953 FTE number is a "floor-level" below which the post-merger company,
613 WEC Energy Group, will not allow its employment levels in Illinois to fall for a period of
614 two years after the closing of the Transaction. This does not mean that WEC Energy
615 Group will be looking to target its level of Illinois employment to this figure; indeed, the
616 needs of the Gas Companies to provide adequate, reliable, efficient, safe, and least-cost
617 utility service and the shared service company in Illinois may require that more than
618 1,953 FTEs are employed in Illinois.

Moreover, the FTE numbers for the individual Illinois companies from which the aggregate 1,953 FTE figure was derived do not represent a commitment with respect to the employment levels at Peoples Gas, North Shore, and/or IBS. Nor do these figures represent what level of FTEs will be needed by Peoples Gas or North Shore to provide adequate, reliable, efficient, safe, and least-cost utility service, and they do not represent the Joint Applicants' intended, forecasted, or targeted levels of post-merger FTEs for the Gas Companies.

With respect to the levels of FTEs the Joint Applicants forecast and plan for there to be in place at Peoples Gas and North Shore for the years 2015 and 2016 in order to provide adequate, reliable, efficient, safe, and least-cost utility service, these are the levels of FTEs forecasted by the Gas Companies in their pending rate cases (Docket Nos. 14-0224/14-0225 (Consol.)) – 1,356 for Peoples Gas and 177.7 for North Shore. This level of employment at the Gas Companies (a combined 1,533.7 FTEs) is not inconsistent with the Joint Applicants' floor-level commitment of maintaining at least 1,953 FTEs in Illinois. As stated above, the 1,953 FTE level is a floor for WEC Energy Group headcount in Illinois, not a ceiling or target, and could be exceeded during the two year commitment period depending on the needs of the WEC Energy Group and the level of voluntary attrition experienced during that period.

Q. Are the Joint Applicants' agreeable to Mr. Lounsberry's recommendation that language be added to the FTE commitment committing to implement any increased staffing levels recommended by the Liberty audit, based on his concerns that the Joint Applicants might shift staffing to comply with a Liberty audit

641 **recommendation by removing staffing from another area, causing concerns for**
642 **safety in that area (Staff Ex. 2.0, 29:686-698)?**

643 A. The Joint Applicants appreciate Mr. Lounsberry's concerns, but they cannot commit to
644 implement recommendations they have not seen, especially in the context of the other
645 recommendations that may be included in the Liberty audit. We hope that
646 Mr. Lounsberry's concerns are adequately addressed by the general conditions proposed
647 concerning the implementation of Liberty audit recommendations, as modified by the
648 Joint Applicants above. Based on those conditions, if Liberty made a recommendation
649 for increased staffing in a particular area, Peoples Gas would implement that
650 recommendation if it is possible, practical and reasonable, and cost effective.

651 With respect to Mr. Lounsberry's concerns about the staffing in other areas of
652 Peoples Gas being "raided" to comply with such a recommendation by Liberty, the Joint
653 Applicants are agreeable to working with Staff to determine particular functional-area
654 FTE commitments similar to a condition that was agreed to in the AGL-Nicor merger
655 (Docket No. 11-0046) to ensure that FTE levels are maintained in areas Staff believes to
656 be critical to safety at Peoples Gas.

657 **Q. What is your response to AG witness David Effron's proposal that the Gas**
658 **Companies return to customers, via a rider, the difference between the cost of the**
659 **level of FTEs approved for the Gas Companies in their pending rate cases and the**
660 **individual company FTE levels from which the 1,953 FTE commitment was derived**
661 **on pages 7-11 and 19-20 of his direct testimony (AG Ex. 1.0)?**

662 A. I respectfully disagree with Mr. Effron. His suggestion that the Joint Applicants have
663 represented that the individual utility FTE figures from which the Joint Applicants'

664 aggregate floor-level commitment of 1,953 FTEs in Illinois was derived (1,294 FTEs at
665 Peoples Gas and 166 FTEs at North Shore) is the FTE level necessary to provide high
666 quality, safe and reliable service to customers is incorrect. In addition to explaining in
667 their Joint Application and in my direct testimony, the Joint Applicants have explained
668 repeatedly in response to data requests from Staff and the Attorney General (attached to
669 my testimony as Joint Applicants Ex. 6.1) that the 1,953 FTEs represents an aggregate
670 floor-level commitment below which the overall, aggregate WEC Energy Group
671 headcount in Illinois will not be allowed to fall for two years after the close of the
672 Transaction, nothing more and nothing less. Those same data request responses
673 explained that the individual company FTE levels from which the 1,953 FTE level was
674 derived do not constitute the intended, forecasted, or targeted level of post-merger
675 employment at Peoples Gas and North Shore. Thus, the 1,953 FTE commitment was, as
676 clearly stated in the Application and my direct testimony, an aggregate employment
677 commitment for the state of Illinois. That commitment does not address what future
678 headcounts are needed at Peoples Gas and North Shore to provide their customers with
679 high quality, safe and reliable service at reasonable cost.

680 As also explained above and in the referenced data request responses, based on
681 the record in the Gas Companies' pending rate cases, it is the headcount levels forecasted
682 for Peoples Gas and North Shore in those rate cases that represent the FTEs that will be
683 needed to provide adequate, reliable, efficient, safe, and least-cost service in 2015 and
684 2016, which are the headcount levels the Joint Applicants forecast and plan for there to
685 be in place at the Gas Companies during those years. Accordingly, the premise

underlying Mr. Effron's rider condition for the difference in FTE costs is incorrect, and the Commission should reject it.

Moreover, although I am not an attorney, it is my understanding that adopting such a rider may violate existing Illinois law and Commission policy with respect to the rules against single-issue ratemaking and retroactive ratemaking. If such a rider was allowed to "correct" for this particular item of the revenue requirement (*i.e.*, headcount), then the Commission should adopt riders to correct for other expense items that have changed since the rate case figures were submitted, such as the substantial increase in Peoples Gas' permitting and restoration costs incurred for doing work in the City's streets. As explained in the rebuttal testimony of Joint Applicant witness Mr. Schott (Joint Applicants Ex. 9.0), if such an adjustment is allowed for one item of expense, there is no reason not to allow it for others.

Q. What is your response to the testimony of City/CUB witness Christopher Wheat recommending that the Joint Applicants increase their floor-level FTE commitment to between 2,051 and 2,090 FTEs in Illinois and increase the length of commitment to at least five years after the close of the Transaction (City/CUB Ex. 1.0, 7-9)?

A. The Joint Applicants respectfully disagree with that proposal. City/CUB provide no reason to support this requested modification other than Mr. Wheat's assertion that "there is no reason for the Commission to approve the proposed reorganization" unless it affirmatively improves the ability of Peoples Gas to perform its utility functions and improve service to ratepayers. Again, like Mr. Coppola and Mr. Cheaks, Mr. Wheat's approach is inconsistent with the approval standard set forth in the Act. As explained above, under Section 7-204 of the Act, the Commission is not charged with an obligation

709 to investigate whether a reorganization will improve the ability of a utility to perform or
710 its service to customers, but rather, that the reorganization will “not diminish” the
711 utility’s ability to provide service to its customers. 220 ILCS 5/7-204(b)(1). In any
712 event, it appears that Mr. Wheat’s analysis (*see* City/CUB Ex. 1.0, 7:128 – 8:135)
713 ignored what the Joint Applicants have said about the FTE numbers for the individual
714 companies from which the 1,953 level was derived. As explained above, these are not
715 the levels of headcount forecasted to be in place at the Gas Companies post-merger.
716 Moreover, a five-year merger condition on employment levels is not a reasonable length
717 of time, and would unduly restrict the management and operational flexibility in running
718 the Gas Companies based on changing circumstances. For example, it could result in the
719 Gas Companies’ customers paying higher rates with no justification other than the
720 existence of the condition.

721 **Q. Is Mr. Wheat’s proposal to have the Commission require that the level of union**
722 **employment at Peoples Gas remains the same as it would have been absent the**
723 **proposed Reorganization, and that the Commission require “a complete employee**
724 **census” profiling the positions at Peoples Gas (City/CUB Ex. 1.0, 11:217 – 12:235)**
725 **reasonable and appropriate?**

726 A. No. The Joint Applicants have no intention to reduce the level of union employment at
727 Peoples Gas. The Joint Applicants have committed to honoring the Gas Companies’
728 existing union labor agreements. Mr. Wheat’s proposal for an “employee census” to
729 develop a benchmark against which the Commission would monitor the Gas Companies
730 is an unnecessary and unsupported effort to micromanage Peoples Gas by City/CUB.
731 Further, such a condition incorrectly assumes that the Commission has some enforcement

authority with respect to the terms of a collective bargaining agreement. The union should be allowed to make the agreements it desires. Indeed, Peoples Gas' Local 18007 union has submitted testimony supporting the Commission's approval of the proposed Reorganization based on the commitments already made by the Joint Applicants. Section 7-204 provides no basis for such a condition.

D. Additional Section 7-204(b)(1) Issues

Q. What is your response to Mr. Lounsberry's recommendation on pages 30-32 to provide a commitment concerning capital expenditures?

A. The Joint Applicants provide additional information concerning capital investments in the rebuttal testimony of Joint Applicants witness Scott Lauber (Joint Applicants Ex. 7.0).

Q. What is the Joint Applicants' response with respect to Mr. Lounsberry's recommendation that the Commission order the Gas Companies to cease their reporting on Condition #24 from Docket No. 06-0540?

A. The Joint Applicants have no objection to this recommendation and agree to this condition.

Q. Do you have a response to City/CUB witness Mr. Wheat's recommendation that the Commission require that the WEC Energy Group maintain the same proportion of Illinois members on its board as currently exist on Integrys' board for at least five years after the closing of the proposed Reorganization (City/CUB Ex. 1.0, 6:94-102)?

A. Yes. The Joint Applicants respectfully disagree with this proposed condition. Mr. Wheat bases this request on an unsupported statement that Integrys' Board of Directors currently plays an unspecified role in the Gas Companies' large capital projects, such as the

AMRP, and speculation that board members who are not from Illinois will not adequately represent the interests of the Gas Companies' customers. As I explained earlier in my rebuttal testimony, the fact that a utility's holding company headquarters or board members are located in another state is not extraordinary, and certainly is not predictive of whether or not the interests of the utility's customers will be protected. This is especially true here, where the Gas Companies will maintain local headquarters and have local management running the day-to-day operations of the utilities. Moreover, the only other reorganization docket the Joint Applicants could find where the Commission included a board member residency condition is the AGL-Nicor Gas reorganization, Docket No. 11-0046, which included a condition that AGL's Board of Directors must include at least one Illinois resident. Here, as in the AGL-Nicor Gas reorganization, the Joint Applicants have committed to maintaining at least one WEC Energy Group board member from Illinois.

Q. City/CUB witnesses Mr. Wheat (City/CUB Ex. 1.0, 9:170 – 10:177) and Mr. Cheaks (City/CUB Ex. 3.0, 5:73-75) both testify that the Joint Applicants should commit to establish and operate a comprehensive, consolidated training facility in Chicago. Do you have a response to this recommendation?

A. Yes. After considering City/CUB's request, the Joint Applicants agree that they will commit to build and establish a new, state-of-the-art training facility in the City of Chicago to be used in training the Gas Companies' employees and, when appropriate, other employees from the WEC Energy Group's utilities in other jurisdictions. This is a significant commitment by the Joint Applicants representing an additional commitment to community involvement, employee training, and civic involvement.

777 **Q. What is your response to City/CUB witnesses Mr. Wheat's recommendation that the**
778 **Joint Applicants also extend for five years the Gas Utility Workers Training**
779 **Program, in which Peoples Gas works with the Power 4 America Training Trust**
780 **Fund, in cooperation with UWUA Local 18007, to fund technical training for future**
781 **workers at the Kennedy-King College's Dawson Technical Institute (City/CUB Ex.**
782 **1.0, 10:178 –11:203)?**

783 A. The Joint Applicants are in agreement with this recommendation. I am pleased to report
784 that Peoples Gas already has approved and executed with UWUA Local 18007 and
785 Power 4 America a five-year extension from April 2015 to its funding of this program.

786 **Q. City/CUB witness Mr. Wheat, on pages 12-16 of his direct testimony (City/CUB Ex.**
787 **1.0), also provides information about the hardships faced by low-income gas**
788 **customers and the need for additional funds to assist with their heating bills, and**
789 **recommends that the Joint Applicants commit to contribute \$5 million of**
790 **shareholder money to Peoples Gas' Share the Warmth program over the next five**
791 **years to assist low-income families and seniors. What is the Joint Applicants'**
792 **response to this request?**

793 A. The Joint Applicants recognize the needs of low-income families and seniors discussed
794 by Mr. Wheat in his testimony. Accordingly, the Joint Applicants will commit to
795 contributing \$5 million of shareholder money over the next five years to Peoples Gas'
796 Share the Warmth fund. At this point, the Joint Applicants expect that this contribution
797 will be spread evenly over the period, with \$1 million being contributed in 2015.

798 **IV. REQUIREMENTS OF SECTION 7-204(b)(5)**

799 **Q. What are the requirements of Section 7-204(b)(5) under the Act?**

800 A. Section 7-204(b)(5) of the Act requires that before it can approve a proposed
801 reorganization, the Commission must find that the “utility will remain subject to all
802 applicable laws, regulations, rules, decisions and policies governing the regulation of
803 Illinois public utilities.”

804 **Q. Has Staff addressed this requirement in direct testimony?**

805 A. Yes. Staff witness Harry Stoller addressed this requirement on pages 7-8 of his direct
806 testimony (Staff Ex. 1.0). Mr. Stoller concludes that the Joint Applicants have met the
807 requirement of Section 7-204(b)(5) of the Act.

808 **Q. Has any other party addressed this requirement in direct testimony?**

809 A. No.

810 **V. REQUIREMENTS OF SECTION 7-204(b)(6)**

811 **Q. What are the requirements of Section 7-204(b)(6) under the Act?**

812 A. Section 7-204(b)(6) of the Act requires that before it can approve a proposed
813 reorganization, the Commission must find that “the proposed reorganization is not likely
814 to have a significant adverse effect on competition in those markets over which the
815 Commission has jurisdiction.”

816 **Q. Has Staff addressed this requirement in direct testimony?**

817 A. Yes. Staff witness David Sackett addresses this requirement on pages 4-8 of his direct
818 testimony (Staff Ex. 4.0). Mr. Sackett concludes that the Joint Applicants have met the
819 requirement of Section 7-204(b)(6) of the Act.

820 **Q. Has any other party addressed this requirement in direct testimony?**

A. RESA makes several proposals with respect to the Gas Companies' small and large volume transportation programs. The Joint Applicants' responses to these proposals are discussed in the rebuttal testimony of Joint Applicants witness Scott Lauber (Joint Applicants Ex. 7.0).

VI. REQUIREMENTS OF SECTION 7-204(b)(7)

Q. What are the requirements of Section 7-204(b)(7) under the Act?

A. Section 7-204(b)(7) of the Act requires that before it can approve a proposed reorganization, the Commission must find that "the proposed reorganization is not likely to result in any adverse rate impacts on retail customers."

Q. Has Staff addressed this requirement in direct testimony?

A. Yes. Staff witness Michael McNally addresses this requirement in his direct testimony (Staff Ex. 7.0). The Joint Applicants' response to Mr. McNally's testimony on this requirement is provided in the rebuttal testimony of Joint Applicants witness Scott Lauber (Joint Applicants Ex. 7.0).

Q. Has any other party provided direct testimony related to this requirement?

A. Yes. City/CUB witness Micheal Gorman testified that the Joint Applicants' commitment not to seek a change in the Gas Companies' base rates that would go into effect any earlier than two years from the close of the Transaction should be extended to five years. Also, City/CUB witness Karen Weigert testified that there should be no increase in the fixed charge portions of the Gas Companies' delivery services for the length of the period in which a change in rates would not be sought.

842 **Q. What is the Joint Applicants' response to City/CUB witness Mr. Gorman's**
843 **recommendation that the period in which the Joint Applicants cannot seek a change**
844 **in their base rates should be expanded from two years to five years (City/CUB Ex.**
845 **4.0, 8-10)?**

846 A. The Joint Applicants respectfully but strongly disagree with the recommendations for
847 such a lengthy period to not seek a change in their base rates, and the Commission should
848 reject Mr. Gorman's proposal. Mr. Gorman's recommendation is based on the
849 observation that Peoples Gas can obtain recovery for a large portion of its capital
850 expenditures through Rider QIP without seeking a general change in base rates. There
851 are several problems with Mr. Gorman's position, however. First, only Peoples Gas has a
852 Rider QIP; North Shore can only obtain recovery of its capital investments by filing for a
853 change in its base rates. Second, Peoples Gas' recovery of capital expenditures under
854 Rider QIP is subject to a cap based on a percentage of Peoples Gas' base rates that can
855 only be reset by filing for a change in base rates. Mr. Gorman does not even
856 acknowledge the existence of this cap, and fails to consider whether the cap in Rider QIP
857 would prevent recovery of capital expenditures if Peoples Gas could not seek a change in
858 base rates for five years. Finally, Mr. Gorman fails to account for how the various
859 updates to CDOT's regulations listed by City/CUB witness Mr. Cheaks in his direct
860 testimony have led to dramatic increases in the costs of performing necessary work on
861 Peoples Gas' facilities in the City. Indeed, these increases already have caused a
862 significant amount of costs that Peoples Gas is unable to recover in its pending rate case
863 due to the timing of the City's updated regulations and that are not recoverable under
864 Rider QIP. Accordingly, for these reasons, the Commission should reject Mr. Gorman's

865 recommendation and accept the Joint Applicants' commitment not to seek a change in the
866 Gas Companies' base rates for a period of two years after the close to of the Transaction.

867 **Q. What is the Joint Applicants' response to City/CUB witness Ms. Weigert's**
868 **recommendation that the Commission order the Gas Companies not to increase the**
869 **fixed charge portions of their delivery service charges for the length of time that**
870 **the Gas Companies cannot seek a change in their base rates (City/CUB Ex. 2.0, 42-**
871 **43)?**

872 A. The Gas Companies' current fixed charges, and those proposed in their pending rate
873 cases, are based on the presumption that Rider VBA – which is a decoupling mechanism
874 that helps ensure accurate recovery of the Gas Companies' authorized distribution
875 revenue requirements – is in existence. However, there is a case pending before the
876 Supreme Court of Illinois challenging the Commission's approval of Rider VBA. Thus,
877 in the event that Rider VBA is removed as a result of that appeal, it would be fair and
878 reasonable to consider a revenue neutral tariff revision to incorporate this change in
879 circumstances into the Gas Companies' rate design. Consequently, Mr. Weigert's
880 recommendation should be rejected.

881 **VII. OTHER ISSUES**

882 **A. Staff**

883 **Q. Are there any other issues raised in the direct testimony of Staff that you would like**
884 **to address in your rebuttal testimony?**

885 A. Yes. I would like to address two of the proposed conditions raised in Staff witness
886 Dianna Hathhorn's direct testimony and the two conditions proposed in Staff witness
887 Matthew Smith's testimony.

888 **Q. On pages 9-10 of her direct testimony (Staff Ex. 6.0), Staff witness Ms. Hathhorn**
889 **states that the Joint Applicants have agreed to two conditions: one concerning**
890 **reporting the status of progress of all conditions imposed by the Commission in this**
891 **case, and the other requiring the CEO of WEC Energy Group, on an annual basis,**
892 **to appear before the Commission to report on the status of the Joint Applicants’**
893 **compliance with the Order to be issued in this case. Do the Joint Applicants agree**
894 **to these conditions, which are presented as conditions #4 and #5 on page 12 of**
895 **Ms. Hathhorn’s direct testimony?**

896 **A.** Yes, the Joint Applicants agree to those two conditions.

897 **Q. What is the Joint Applicants’ response to Staff witness Mr. Smith’s proposed**
898 **condition that would require Peoples Gas to implement a program to move all inside**
899 **customer meters to accessible outside locations within 10 years from the effective**
900 **date of the merger?**

901 **A.** The Joint Applicants understand the concerns expressed by Mr. Smith regarding the
902 problems inside meters create with respect to ensuring that inside safety inspections
903 (“ISI”) are performed as required by federal regulation. For the reasons explained in the
904 rebuttal testimony of Joint Applicants witness Thomas Webb (Joint Applicants Ex. 11.0),
905 however, the Joint Applicants cannot agree to this condition proposed by Mr. Smith
906 because it is not feasible, or even possible, to achieve compliance with such a condition.
907 A separate capital program to accomplish this goal will be at odds with and create
908 inefficiencies for the AMRP, which is not in the customers’ best interests. Also, creating
909 a separate capital program to move meters outside on a different schedule than AMRP’s

low to medium pressure upgrades would increase the risk for outages that could occur and leave customers dangerously without service on the coldest of winter days.

Furthermore, the issues regarding Peoples Gas' inside meters existed before and are unrelated to the proposed Reorganization. Staff fails to explain why such a condition is necessitated by the proposed Reorganization, or why it would be required under Section 7-204 in order for the Commission to approve the proposed Reorganization.

Q. What is the Joint Applicants' position with respect to Mr. Smith's recommendation on pages 15-19 that the Commission order as a condition for approval of the proposed Reorganization that Peoples Gas implement a Pipeline Safety Management System ("PSMS"), in line with American Petroleum Institute ("API") Recommended Practice ("RP") 1173?

A. The Joint Applicants believe that the development and implementation of a PSMS in line with API RP 1173 is a laudable goal and one which will help the Gas Companies further develop a safety culture. As explained in the rebuttal testimony of Joint Applicants witness Mr. Webb (Joint Applicants Ex. 11.0), however, API RP 1173 currently is in draft form, so the Gas Companies would have few, if any, peers in the gas industry to which they could look for examples of how to successfully implement a PSMS and to learn what does, and does not, work. The Joint Applicants will work with Staff to develop a plan for the development and implementation of a PSMS for the Gas Companies, to be submitted in a stipulation made in later rounds of testimony or a separate filing in this proceeding.

931 **B. City/CUB**

932 **Q. City/CUB witness Ms. Weigert in her direct testimony (City/CUB Ex. 2.0)**
933 **recommends several conditions be imposed in the Commission’s approval of the**
934 **proposed Reorganization based on energy efficiency related issues. Do you have a**
935 **general response to her testimony before addressing the specific conditions**
936 **requested?**

937 **A.** The Joint Applicants respectfully disagree with this recommendation. The topic of
938 energy efficiency generally and the specific conditions requested by Ms. Weigert do not
939 appear to have any connection to the proposed Reorganization. Further, Section 7-204
940 does not contain any requirements concerning energy efficiency, and does not suggest
941 that the Commission should consider such issues in evaluating a proposed reorganization.
942 Thus, the Commission should not adopt Ms. Weigert’s proposed energy efficiency
943 conditions.

944 **Q. What is the Joint Applicants’ response to Ms. Weigert’s request that the Joint**
945 **Applicants shareholders be required to contribute \$10 million for gas energy**
946 **efficiency programming (City/CUB Ex. 2.0, 10:152-159)?**

947 **A.** City/CUB has provided no legal basis for the Commission to condition the approval of
948 the proposed Reorganization on requiring the Joint Applicants’ shareholders to contribute
949 \$10 million for an energy efficiency fund that is not required by the Act or other Illinois
950 law or regulation. Further, the Joint Applicants respectfully point out that Ms. Weigert
951 incorrectly described Integrys’ \$7.5 million commitment to an energy efficiency program
952 in connection with the merger that created Integrys upon which she relies for this
953 proposal. Ms. Weigert is incorrect that those funds were contributed by Integrys’

shareholders. Integrys' commitment was for annual funding of \$7.5 million, for the Gas Companies, for programs that were in place for three years, until the adoption of statutory requirements. The funding was recoverable by a rider authorized by the Commission. Indeed, given Ms. Weigert's statement that the annual \$7.5 million funding "proved to be worth very little," the Joint Applicants question whether it makes sense to devote additional resources in this manner above and beyond what already is being done per the direction of the General Assembly.

Q. What is the Joint Applicants' response to Ms. Weigert's request that the Commission order the Joint Applicants to fund a study of the potential costs and benefits of third party administration of the Gas Companies' energy efficiency programs, with the involvement of the Illinois Power Agency (City/CUB Ex. 2.0, 12:202 – 13:216)?

A. The Gas Companies do not earn more if they sell more gas, as suggested by Ms. Weigert, and thus they do not have the incentive to increase usage and reduce energy efficiency portfolio standard ("EEPS") goals. Ms. Weigert apparently believes that the Gas Companies have a throughput incentive to increase usage and reduce EEPS goals. In doing so, Ms. Weigert ignores the fact that with full, symmetrical decoupling in place through Rider VBA, the Gas Companies have no throughput incentive. With decoupling, the Gas Companies must return to customers any over-collection of their Commission-authorized distribution revenue requirements. Indeed, this is the reason why conservation groups, such as the Natural Resources Defense Council, very much support the adoption of decoupling. Accordingly, the Commission should not force the Joint Applicants to pay for the study requested by Ms. Weigert. Moreover, as this would be an approach that

would be applicable to all Illinois gas utilities, there is no stated reason for the Joint Applicants alone to bear the cost of such a study.

Q. What is the Joint Applicants' response to City/CUB witness Ms. Weigert's recommendation that the Commission order the Gas Companies to offer an energy usage data system and that Peoples Gas be required to work with the City and researchers to create an ongoing updatable database of actual natural gas usage, as conditions of approving the proposed Reorganization (City/CUB Ex. 2.0, 13-15)?

A. The Joint Applicants respectfully do not agree to accept these recommended conditions. The Gas Companies already are able to make the data at issue available to customers as requested and implementing an energy usage data system at the Gas Companies would require a significant investment in IT resources, which would be costly to customers.

Q. What is the Joint Applicants' position with respect to City/CUB Witness Ms. Weigert's recommendation that Peoples Gas' on-bill financing program should be expanded to allow customers with lower credit scores to participate (City/CUB Ex. 2.0)?

A. It is the Joint Applicants' position that Ms. Weigert's recommended proposal cannot be accomplished because the credit requirements for the program are contractual in nature and set by third-party financiers, over whom neither the Commission nor the Gas Companies have any control. If the financiers do not want to lower the credit requirements to extend this credit to customers with lower credit profiles, it is unclear what the Commission or the Gas Companies can do to force them to revise their business practices.

999 **C. Attorney General**

1000 **Q. AG witness Mr. Effron testifies about what he believes to be discrepancies in the**
1001 **amount of costs to be recovered for the Integrys Customer Experience (“ICE”)**
1002 **project in the Gas Companies’ pending rate cases, and proposed that the**
1003 **Commission require as a condition of its approval of the proposed Reorganization**
1004 **that a rider be imposed to return to customers what he believes to be “non-existent”**
1005 **expenses that would be approved for recovery by the Commission in the Gas**
1006 **Companies’ pending rate cases (AG Ex. 1.0, 12-20). What is the Joint Applicants’**
1007 **response to this testimony and proposal?**

1008 **A. The Joint Applicants respectfully disagree with this recommendation. Mr. Effron did not**
1009 **explain how the ICE issue, which is being addressed in the Gas Companies' pending rate**
1010 **cases, relates to the proposed Reorganization or why this issue is relevant to the statutory**
1011 **standards that are to guide the Commission’s review of the proposed Reorganization.**
1012 **Joint Applicants witness Mr. Schott further addresses the details of Mr. Effron’s**
1013 **testimony concerning the ICE project and his proposed rider condition (Joint Applicant**
1014 **Ex. 9.0).**

1015 **VIII. CONCLUSION**

1016 **Q. Does this conclude your rebuttal testimony?**

1017 **A. Yes, it does.**